

Appendix A

Sources and Methods for Analysis of FSP Administrative Costs

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Data Sources

For this study, FNS provided the FSP administrative cost data for 1989-2001 in a series of extracts from the agency's National Data Bank. This data warehouse contains FSP administrative costs and other data reported by the States to FNS.¹ The States submit quarterly and annual reports of FSP administrative expenses to FNS on the SF-269 report. FNS enters these data into its Food Stamp Program Integrated Information System (FSPIIS) and periodically extracts the data to the National Data Bank. FNS provided the data extracts for this report from Version 8 of the National Data Bank in November 2003. We verified the national totals for each year against reports provided by FNS from the FSPIIS in July 2004.

On the SF-269 report, States break down their FSP administrative costs in two ways. The report is organized in columns representing specific program functions, such as certification, benefit issuance, and automated data processing. For each column, the State report identifies Federal and non-Federal shares of outlays. Depending on the function, the Federal share (also known as Federal Financial Participation, or FFP) is set by law at 50 to 100 percent of reimbursable expenses (except for one category, Reinvestment, for which the States do not receive Federal reimbursement). Over the period covered by the data, the Federal share for some expenses was reduced from 75 percent to 63 or 50 percent. (The reporting categories and associated statutory FFP rates are presented later in this section.)

States also report Federal and non-Federal shares of unliquidated obligations on the SF-269. Unliquidated obligations represent commitments of funds that have not been formally expended (i.e., liquidated). The liquidation of obligations is part of the process of finalizing expenditures for a fiscal year. In consultation with FNS, we determined that States could no longer liquidate the unliquidated obligations for this period, so these obligations were not counted in the analysis.

Estimation of Total Costs for Analysis Categories

Preliminary analysis indicated that the actual Federal share (i.e., the Federal outlay divided by the sum of the Federal and non-Federal outlays) frequently was different from the statutory FFP rate. Most often, the actual Federal share was less than 50 percent when the statutory FFP rate was 50 percent. FNS officials indicated to us that in these situations, the Federal outlay was more reliable than the non-Federal outlay, because FNS reviews and confirms the allowable Federal cost during the cost reporting and reimbursement process.²

¹ The State Agencies include the 50 States and the District of Columbia. FSP costs for Guam and the U.S. Virgin Islands are not included in this analysis. Puerto Rico does not operate the FSP.

² FNS officials indicated that when a Federal outlay is revised due to identification of an error or unallowable costs, the corresponding non-Federal outlay may not be revised by the State, and FNS does not attempt to make this correction. Also, in some cases States have included unallowable costs in their reported non-Federal outlays, even though they claimed Federal reimbursement only for allowable costs.

Therefore, the costs presented in this report, with some exceptions, were estimated by dividing the statutory FFP rate into the Federal outlays (in dollars) as reported on the SF-269. For example, a Federal outlay of \$1000 in a category with a statutory FFP rate of 50 percent would yield an estimated total of \$2000, (i.e., $1000/0.5=2000$). In a few minor categories, however, this approach was not feasible (due to their being no Federal share) or yielded clearly unacceptable results, so the actual total was used (Federal outlay plus non-Federal outlay).³ In all cases, the intent was to use the best estimate of the total allowable cost.

Table A-1 shows how the numerous cost reporting categories were grouped into the categories used for the analysis. The largest categories were generally kept separate. The various issuance-related costs were combined, however, to allow for better comparisons over the study period, when most States replaced their coupon issuance systems with electronic benefit transfer (EBT) systems.⁴ The various levels of funding for ADP development and fraud control were combined, as were the components of employment and training (E&T).

The SF-269 functional reporting categories correspond to the FSP functions described in Chapter One. Throughout the study period, each SF-269 category was generally intended to include the direct costs of the function and the indirect costs that are allocated to the FSP as a result of those direct costs.⁵ For example, the reported certification cost is expected to include both the direct costs of certification (such as certification worker salaries and travel) and the indirect costs allocated on the basis of direct worker time or costs (such as shares of local office management, equipment and occupancy, and state-level oversight). For issuance costs, however, States are required to report indirect costs separately from direct costs for EBT or coupon issuance.

³ The actual costs were used for: E&T 100 percent grant, ADP development, Reinvestment, Systematic Alien Verification of Eligibility (SAVE), Research and Demonstration Evaluation Projects, and State/Local Demonstration Projects. SAVE costs are for obtaining alien status information from the Immigration and Naturalization Service.

⁴ The conversion from coupon issuance to EBT was usually a gradual process over a year or more. During this period, States incurred a combination of costs in the various issuance categories, with some portions of the FSP caseload receiving coupons while others received benefits via EBT. Thus, it was most useful to compare States' total issuance costs, with the recognition that they reflected a mix of issuance systems. This mix can be quantified for modeling through the use of data on the number of FSP households receiving benefits via coupons, EBT, and cash (which was used for some SSI recipients and participants in demonstration projects).

⁵ Indirect costs are expenditures that cannot be efficiently attributed to a specific program or activity. States must have approved cost allocation plans in order to claim Federal reimbursement for indirect costs. These plans may allocate both personnel and non-personnel costs. Indirect personnel costs typically include supervisors and support staff who serve multiple programs and whose time on individual programs cannot be efficiently measured. Typical indirect non-personnel costs include general-purpose supplies, telecommunications, facilities, equipment, and contracted services.

Table A-1**Cost Categories, Federal Financial Participation Rates, and Basis for Estimating Total Outlays for Analysis**

| Analysis Category and Included Reporting Categories | Statutory Federal Financial Participation (FFP) Rate | Basis for Estimating Total Outlays |
|----------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------|
| Certification | 50% | Federal total |
| Issuance | | |
| Coupon Issuance | 50% | Federal total |
| EBT Issuance | 50%, capped on the basis of prior issuance costs | Federal total |
| Issuance Indirect | 50% | Federal total |
| EBT Startup | 50% | Federal total |
| Fraud Control ¹ | | |
| 75% Funding Fraud Control | 75% | Federal total |
| 50% Funding Fraud Control | 50% | Federal total |
| Reinvestment (100% Non-Federal) | 0% | Federal plus Non-Federal |
| Automated Data Processing (ADP) Operations | 50% | Federal total |
| ADP Development ² | | |
| 75% Funding ADP Development | 75% | Federal plus Non-Federal |
| 63% Funding ADP Development | 63% | Federal plus Non-Federal |
| 50% Funding ADP Development | 50% | Federal plus Non-Federal |
| Employment and Training (E&T) | | |
| E&T 100% Grant | 100% | Federal plus Non-Federal |
| E&T 50% Grant | 50% | Federal total |
| E&T Dependent Care | 50%, with per-participant cap | Federal total |
| E&T Transportation/Other | 50%, with per-participant cap | Federal total |
| Optional Workfare | 50% | Federal total |
| E&T ABAWD ³ Grant | 50% | Federal total |
| Food Stamp Nutrition Education (FSNE) | 50% | Federal total |
| Unspecified Other (Direct and indirect costs not included elsewhere) | 50% | Federal total |
| Miscellaneous | | |
| Quality Control | 50% | Federal total |
| Fair Hearing | 50% | Federal total |
| SAVE ⁴ | 100% | Federal plus Non-Federal |
| Outreach | 50% | Federal total |
| Management Evaluation | 50% | Federal total |
| Research and Demonstration Evaluation Projects ⁵ | (varies) | Federal plus Non-Federal |
| State/Local Demonstration Projects ⁵ | (varies) | Federal plus Non-Federal |

Table A-1 (Continued)

Cost Categories, Federal Financial Participation Rates, and Basis for Estimating Total Outlays for Analysis

Note: Some categories do not appear in all years' cost data.

¹ The FFP rate for Fraud Control switched to 50% as of April 1, 1994, as mandated by the Mickey Leland Hunger Relief Act of 1993.

² ADP development was funded at the 75% FFP rate for approved projects in FY1989-1991. The rate of FFP was 63% from October 1991 through March 1994, and 50% thereafter, as mandated by the Mickey Leland Hunger Relief Act of 1993.

³ ABAWD=Able-Bodied Adult Without Dependents. Some States received special grants for serving this portion of the FSP recipient population.

⁴ SAVE=Systematic Alien Verification of Eligibility (costs for obtaining alien status information from Immigration and Naturalization Service). The official rate of FFP for SAVE expenses was 100% until April 1, 1994, and 50% thereafter, as mandated by the Mickey Leland Hunger Relief Act of 1993. The actual rate of FFP differed from the official rate in some years for unknown reasons.

⁵ The FFP rate for Research and Demonstration Evaluation Projects and State/Local Demonstration Projects was determined by individual project budgets set by agreement between FNS and the State or local agency.

The “unspecified other” category is used for reporting costs not specifically identified elsewhere on the SF-269. According to FNS, this category may include both direct and indirect costs.⁶ For example, the “unspecified other” cost may include state FSP staff whose time is not identified as spent on one or more specific program functions. Indirect costs are included in this category if they are not associated with a specific program funding stream. Early in the history of the FSP, many States assigned their indirect costs for all FSP operations to the unspecified other category. Before the study period, FNS instructed the States to change this practice and allocate indirect costs among the other categories. However, there may be differences among States and within States over time in the extent to which indirect costs are reported as “unspecified other costs” and not assigned to specific categories such as certification. Thus, the costs reported in a specific category in two different States may not be entirely comparable, because one State may have included all related indirect costs while the other did not.⁷

Although most of the FNS reporting categories represent recurring operational costs, there are several categories that are non-recurring and may be considered investments. In particular, EBT start-up and ADP development may be considered investments, because they are one-time costs that are intended to produce program improvements over a period of several years. Demonstration and evaluation costs may be considered an investment in knowledge. We did not attempt to amortize these non-recurring costs, however, for two reasons. First, there was no clear basis for determining the appropriate amortization period, both because of the nature of these expenditures and because of the timing of when they are reported. Although there is no national database of detailed information on EBT start-up, ADP development, and demonstration and evaluation costs, the authors’ past experience suggests that the largest components of these costs are state (or local) personnel and contractor services. Unlike equipment costs, which are usually spread over time through leases or

⁶ This information was provided through personal communications with several FNS staff over the course of the study.

⁷ The methods used to attribute direct costs to FSP reporting categories may also vary both among States and over time. For example, methods for attributing ADP costs to the FSP vary depending on system design and other factors.

explicit depreciation charges, the state/local personnel and contractor service costs do not have a standard “useful life” that would be suitable as an amortization period. Furthermore, costs of this type may be incurred in one year and reported in a subsequent year. The second reason for not amortizing the non-recurring costs was that, as shown in the results, we believed that the relatively modest share of costs in these categories did not justify the additional effort that would be required to develop and apply an appropriate methodology, particularly if the assignment of the useful life would be arbitrary.

Normalizing Costs for Comparisons

We normalized FSP administrative costs for comparisons of costs among States and over time. First, the total estimated cost for each category in each State and year was divided by the monthly average number of households participating in the FSP; thus the basic unit of measurement is the cost per case-year. Second, to compensate for the impact of inflation on comparisons over time, all costs were adjusted to 2001 dollars, using the price deflator for the Gross Domestic Product (GDP).⁸

⁸ The GDP price deflator was used because it reflects the overall rate of inflation in the domestic economy, and because it has been used by FNS for setting EBT cost reimbursement limits. The Bureau of Economic Analysis (BEA) has a specific price deflator for state and local income security expenses. Use of the BEA deflator would have resulted in slightly higher normalized costs for years prior to 2001, with the greatest difference in the earliest years.